

VZCZCXRO8551
PP RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHBM #0431/01 1540900
ZNY CCCCC ZZH
P 020900Z JUN 08
FM AMEMBASSY BUCHAREST
TO RUEHC/SECSTATE WASHDC PRIORITY 8333
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEHBS/USEU BRUSSELS PRIORITY 0015
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RHMCSUU/DEPT OF ENERGY WASHINGTON DC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BUCHAREST 000431

SIPDIS

DEPT FOR EUR - JGARBER, MBRYZA
DEPT FOR EEB - SMANN, SGALLOGLY
USEU BRUSSELS FOR SPECIAL ENVOY GRAY
NSC FOR LCATIPON
STATE PASS TO USTDA DSTEIN
USDOC FOR ITA/EUR/OEERIS/CEED/KNAJDI
ENERGY FOR TTILLER

E.O. 12958: DECL: 06/01/2018

TAGS: [ENIV](#) [ENRG](#) [PGOV](#) [PREL](#) [RO](#)

SUBJECT: ROMANIA: STATE COUNSELOR BRIEFS ON ENERGY SECURITY
ISSUES

Classified By: DCM Mark A. Taplin for reasons 1.4(b) and (d)

11. (C) Summary. In a May 19 meeting with EconOff, State Counselor to the Prime Minister for Economic Affairs Constantin Ciupagea shared the Romanian Government's current thinking on LNG, pipelines, and the proposal for a consolidated state energy company. Ciupagea reiterated Romania's support for an LNG terminal in Constanta, but also said that South Korea has expressed interest in developing a smaller project near the port of Mangalia. On pipelines, Ciupagea added his assessment that Turkey is "playing a waiting game" to see how the supply situation works out. The proposed state energy "national champion" company is gaining ground within the Government of Romania (GOR) and appears unlikely to encounter any significant obstacles on the part of the EU. End summary.

LNG

12. (C) Ciupagea opened the meeting with a discussion of LNG and the GOR's desire to import it by way of the Black Sea. Mentioning the proposed feasibility study for an LNG terminal in Constanta (USTDA is in the preliminary evaluation phase of a project proposed by U.S. developers ETG/UGI), he said that the GOR has every interest in getting the project done as quickly as possible. He said that several investors have already expressed interest in project development as soon as the feasibility study is completed. (Comment: The fact that other investors are interested in the project may explain some of the reluctance ETG has encountered in finalizing a deal with the state-controlled project beneficiary, Romgaz. End comment).

13. (C) Without naming specific companies, Ciupagea indicated that the GOR and potential investors have had preliminary discussions on LNG supply with Egypt, Qatar, UAE, and other Persian Gulf countries. He was positive on the likelihood that Romania would be able to obtain sufficient LNG supplies to make a terminal at Constanta feasible. However, Constanta is not the only project under consideration. Ciupagea also mentioned a South Korean proposal to develop a smaller (3 bcm) LNG facility in the port of Mangalia, south of Constanta near the Bulgarian border. The benefit is that such a facility could be serviced by smaller size vessels, which he asserted are less problematic with regard to Bosphorus transit according to what the Turks have indicated in bilateral meetings with Romania.

14. (C) Ciupagea said Romania perceives little short-term forward movement on any of the proposed "southern corridor" pipeline projects. He offered his assessment that Turkey is playing a waiting game to see how the upstream supply situation works out before throwing their weight significantly behind Nabucco or another project. Romania is still pursuing internal cooperation on energy issues within the EU. One example of this involvement is that Romania is angling to host the new EU electricity regulatory body when this institution is established. The hope is that Romania will be able to leverage the existing energy exchange to become a bigger player in the broader European electricity market.

State Energy "Champion"

15. (C) Asked about the GOR proposal to merge the remaining state-owned energy companies into a single national "champion," Ciupagea said he believes this would allow the GOR to eliminate disadvantageous long-term supply contracts and remove the ability of certain politically-connected enterprises to obtain preferential rates on energy supplies. He said that Romania is receiving positive signals from the European Commission (EC) in terms of developing a national energy champion. This was confirmed by the EC's Chief Representative to Romania, Niculae Idu, who told EconOff in a separate meeting that the current EU emphasis on energy

BUCHAREST 00000431 002 OF 002

security means the EC would likely not oppose a merger of state-owned companies on competition grounds. In order to comply with existing competition rules, the GOR proposes to establish a holding company under outside management, but refrain from directly integrating supply and distribution companies. (Note: As an interesting aside, Prime Minister Calin Popescu-Tariceanu told visiting former Secretary of State Madeleine Albright on May 22 that the GOR would welcome foreign investment in a consolidated state energy company, particularly in the area of energy distribution. End note).

16. (C) Comment: Ciupagea is a good contact on energy issues and has been a reliable and open source on internal GOR thinking. Post is somewhat surprised that the proposed energy "national champion" appears to be gaining institutional support. The existing state-owned assets, which would be merged into a holding company, are not by themselves exceptionally attractive from a business perspective. Consolidation would be a step back from the privatization drive that accompanied Romania's run-up to EU membership and has the potential to create anti-competitive conditions for the private sector. However, the proposal does reflect a sense within the GOR that Romania needs to more actively assert its national interests in energy security, including through more direct state involvement. That same determination is driving Romania's interest in developing LNG facilities on the Black Sea coast. While Romania has welcomed U.S. initiatives to assist, particularly through possible USTDA funding of an LNG feasibility study for Constanta, the reluctance of Romgaz to embrace ETG/UGI as its partners, and the news about South Korean interest, suggest that the GOR will go with whomever offers the best deal, U.S. or otherwise. End Comment.

TAUBMAN